Men are from Mars, women are from Venus: Does it matter in investing?

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THE CHARTER

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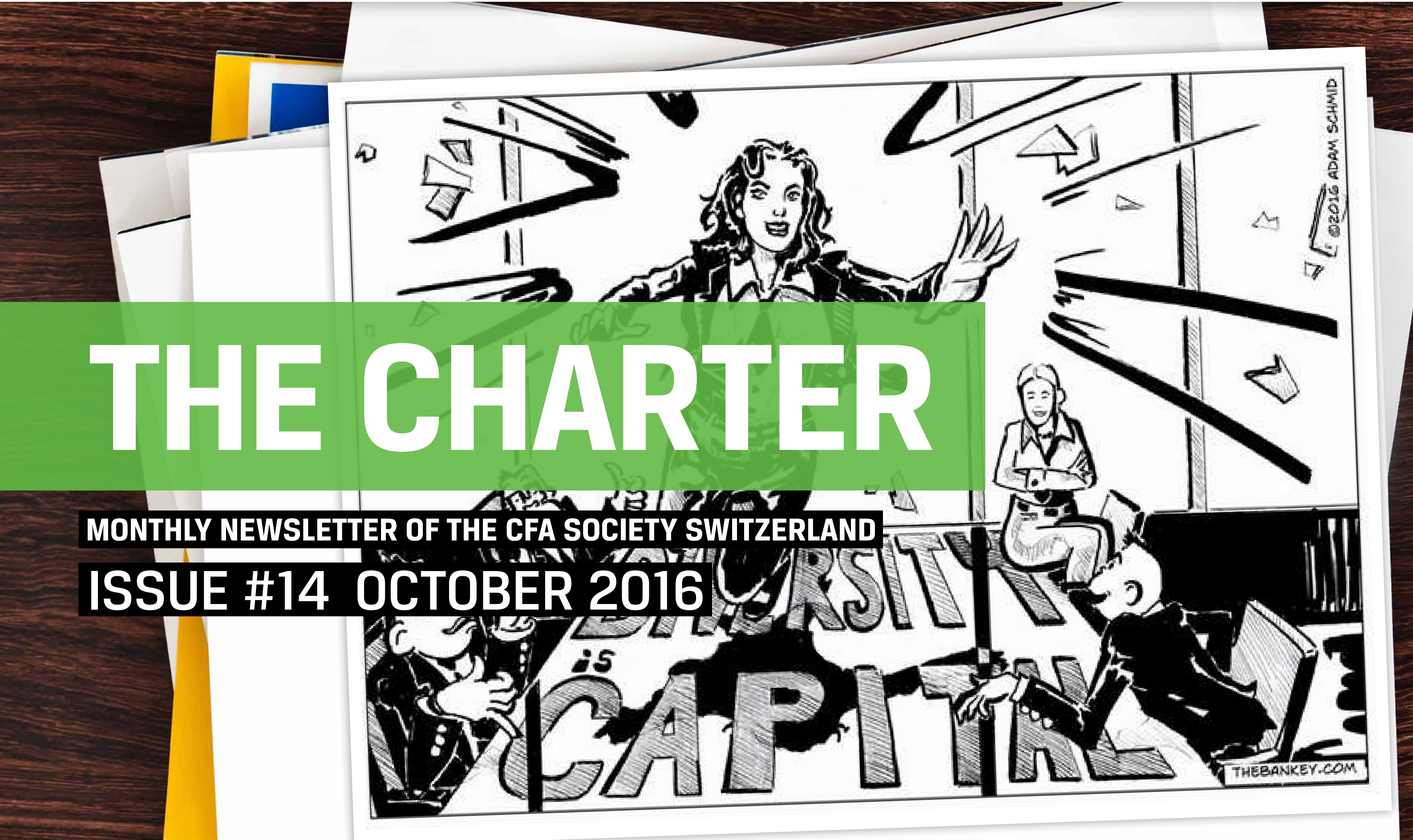

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THE CHARTER INTRODUCES «THE BANKEY»

The comic strips are crafted by a Swiss duo of bankers under the pen name Adam Schmid. Upon invitation by The Charter, they have also created the Diversity Capital image in this edition's front cover. See next page for details.

THE BANKEY

About the image – from the author of „The Bankey":

The inspiration of this comic arises from the idea that diversity is not only restricted to gender or cultural aspects but in fact seeks new ideas and even unusual solutions – like ‚*Business Unusual*' from Richard Branson. Taking an unexpected perspective is the core of innovation and in this regard relates to one of Hillary Clinton's current slogans of ‚*breaking the glass ceiling*'. From an economic standpoint diversity makes perfect sense, as not acknowledging the full extent of all human potential restricts us in our ability to use our capital efficiently.

CFA Society Switzerland

EDUCATIONAL

MEN ARE FROM MARS, WOMEN ARE FROM VENUS: DOES IT MATTER IN INVESTING?

By Dr. Kremena Bachmann, Senior Research Associate at the Department of Banking and Finance of the University of Zurich

A popular perception is that men and women are different. But do these differences matter in financial decision making and do they have any impact on the investment performance? This article points out some core research findings and discusses implications for the construction of investment teams.

Who are better investors: men or women?

Several studies report significant gender differences in the decision making behavior of investors which have a potential impact on the investment performance. One common observation is that men take more risk than women. However, stronger risk taking does not necessary deliver sustainable returns. This depends to a great extent on the way investors perceive the risks they are taking when investing in the financial markets.

Risk perception can be biased in several ways and men and women are affected differently by these biases. One common factor that influences risk perception is related to confidence. Experimental studies report that men take more risks because they are more confident in the correctness of their investment decisions than women (Estes and Hosseini, 1988), they are more optimistic about medium to large probabilities of gains (Fehr-Duda et al., 2006), and more likely to invest during price bubbles (Eckel and Füllbrunn, 2015). However, this stronger risk taking of men does not pay out. Using account data from over 35,000 households from a large discount brokerage, Barber and Odean (2001) observe that men trade 45 percent more than women and this trading reduces men's net returns by 2.65 percentage points a year as opposed to 1.72 percentage points for women. It seems that women are less overconfident than men, i.e. women are less afflicted than men by the delusion that they know more than they really do and this improves their performance.

Other studies suggest that the observed gender differences in the risk perception may not be universal. In particular, self-selection may cause women in certain (male-dominated) environments to be as overconfident as men in these environments. Indeed, a survey among 649 fund managers in the U.S., Germany, Italy and Thailand finds that female fund managers are more risk averse but the expected lower degree of overconfidence by women is very small (Beckmann and Menkhoff, 2008).

If females adjust to the environment and overconfidence affects performance adversely, then we should not observe any significant performance differences between the genders. Indeed, there are no discernible differences in fund turnover between male and female-managed equity mutual funds (Bliss and Potter, 2002). The performance and risk of fixed-income funds does not depend on the gender of the manager (Atkinson, Baird, and Frye, 2003). There are also no significant differences in the risk and performance of male and female managed hedge funds and fund-of-hedge-funds (Aggarwal and Boyson, 2016). However, live female-managed funds do better than live male-managed funds. This suggests that only high-performing female-managed funds can survive, while for male-managed funds average performance is sufficient for surviving. In other words, the gender differences in the ability to generate superior returns are more in the heads of the investors than in the trading books of the managers.

As seen above the empirical results suggest that there are no gender differences in the performance of professionals. However, investors should consider the gender of the managers if they aim to benefit from diversifying among investment styles. Babalos et al. (2015) analyze European equity mutual funds and find that male managers favor small size stocks whereas female managers prefer more growth-oriented strategies. This is consistent with the observation that males and females adopt different strategies in financial decision environments but that these strategies have no significant impact on the ability to perform (Powell and Ansic, 1997).

Are more heads better than one?

One may argue that biases in risk perception can be corrected if decisions are taken in teams. However, empirical and experimental studies suggest that this might not be true. For example, Prather and Middleton (2000) find that there is no appreciable difference between the outcomes of team-managed and individually managed mutual funds. Experimentally, Plous (1995) find that teams do not show a lower overconfidence than individuals. This holds even if one of the individuals plays the "devil's advocate" and asks group members to consider reasons why they might be wrong.

Do mixed teams perform better?

If teams make the same mistakes as individuals, does the gender composition of the team matter for the performance? Analysing a sample of management teams from the U.S. mutual fund industry, Baer et al. (2007) conclude that gender diversity is negatively related to fund performance. Similarly, Aggarwal and Boyson (2016) find that mixed hedge fund teams underperform both female and male only managed hedge funds.

To explore the reasons for these differences, Bogan et al. (2013) construct an experiment mimicking real investment decisions in funds. As expected, they find that teams with male members take more risks. However, all male teams are not the most risk seeking: mixed teams with a majority male or a balanced gender composition are more risk seeking than all male teams. Hence, the underperformance of mixed teams could be linked to excessive risk taking.

Conclusions

Men take more risks in the financial markets than women but their risk taking does not pay out. While this is true for individual investors, there are no considerable differences in performance between male and female professionals. Nevertheless, in bad times, clients are much more likely to withdraw money from female-managed funds than from funds managed by men.

While there are no differences in the performance of male and female investment professionals and teams do not necessarily make better decisions than individuals, the gender composition of the teams matters for performance. Females are less likely to engage in excessive trading but including women in investment teams motivates excessive risk taking, which reduces performance.

Dr. Kremena Bachmann *is a senior research associate at the Department of Banking and Finance of the University of Zurich. She specializes in research on behavioral finance and financial decision-making. Her research focus is on the impact of cognitive and emotional factors on financial decision-making and on the development of measures improving the decision quality. To apply her research and get new insights, she assists financial institutions in optimizing their advisory services. Dr. Bachmann earned a master's degree in economics from the University of St. Gallen and a PhD in Finance with a focus on behavioral finance from the Swiss Finance Institute.*

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CFA Society Switzerland

EDUCATIONAL LINKS

THE BATTLE FOR GENDER DIVERSITY

October 2016 – Latest educational content from CFA Institute

Gender Diversity in Investment Management: New Research for Practitioners on How to Close the Gender Gap

Renée Adams, Brad Barber, Rebecca Fender, CFA, et al. | CFA Institute Research Foundation

Closing the Gender Investing Gap

Sallie Krawcheck | Webcast | 1 CE

Diversity in Finance: It Matters

Barbara Stewart, CFA | Enterprising Investor blog

Women on Board: Does Boardroom Gender Diversity Affect Firm Risk?

Vathunyoo Sila, Angelica Gonzalez, and Jens Hagendorff | Journal of Corporate Finance | Summarized in CFA Digest

How I Became a Fearless Feminist at Fifty-Five

Lucy Kellaway | Webcast | 1 CE

Alpha and Gender Diversity, the Competitive Edge

Recent CFA Institute conference on Gender Diversity in Boston, Massachusetts, US | #CFAWomen

CFA Society Switzerland

SOCIETY

ANNUAL GENERAL MEETING 2016 & BOARD MEETING OF CFA SOCIETY SWITZERLAND

By Peter Neumann CFA, Vice President of CFA Society Switzerland

The AGM and Board Meeting were held on 23rd September at Thomson Reuters in Zurich. A lunchtime continuing education event on 'Portfolio Management – Focus on Control of Downside Risk' preceded the meeting.

This year's AGM was a wonderful event and we had good participation by combining the AGM, the quarterly Board Meeting, and a continuing education event on 'Portfolio Management – Focus on control of downside risk' hosted by Thomson Reuters. There was time to network during lunch and also at the conclusion of the event with an Apéro.

Adina Grigoriu, an actuary and cofounder at Active Asset Allocation presented the continuing education theme and discussed topics on how risk should be measured, the effectiveness of risk-based strategies in helping investors reach their goals, and explored maximum drawdown.

The AGM broke new records with a formal time schedule of 15 minutes. The current President of CFA Society Switzerland Florian Esterer led the discussion and briefly moved through the formal voting process. Apart from a recap of some of the Society achievements, the AGM saw the election of two new Board Members – Anthony Cagiati and Rafaela Bichuette – as well as thanked departing members

Daniel Jaedig and Peter Casanova. We also voted for a change in the bylaws to extend the maximum term for the Society's auditors from two years to four years. This longer period allows the auditors to build a reasonable amount of knowledge and experience in the audit of our financials and to support improvement initiatives.

The Board Meeting followed the AGM which involved the customary voting for the new President, board meeting, and discussion of agenda topics such as marketing, GIPS sponsorship, and 2017 planning. Attendees at this year's Board Meeting witnessed board members taking on new positions. Florian Esterer as new 'Past President' helped the board with his wisdom given that he had been on the Board for the longest period. Peter Neumann as the newly elected President led the discussion while Patrick Ranzijn as the new Secretary took meeting notes. And needless to say, the new Board Members challenged us on our usual way of operating with their fresh look at things.

One of the hot agenda topics was the marketing campaign to increase participation in the Society's recently established CFA exam preparation courses for the December exam. Course participants have clearly a higher chance of success and the Society would like to support a larger portion of CFA candidates.

Another interesting point discussed was whether CFA Society Switzerland should take on the GIPS country sponsorship together with the Swiss Funds & Asset Management Association (SFAMA). This would provide the Society with a bolder voice in the market. Our volunteer and member base could support activities.

And last but not least we planned our 2017 Board Meetings and Board summer outings.

After the Board Meeting, members had the opportunity to network among themselves and also with Board Members during an Apéro. A final thank you to Sabine Feierabend and Michelle Knecht for organizing the much anticipated and enjoyable event.

CFA Society Switzerland

EDUCATIONAL

CFA INSTITUTE RESEARCH CHALLENGE IN SWITZERLAND 2016/2017 LAUNCHED

By Olivier P. Müller CFA, Chair University Relations

This year's subject company is Ascom, a global solutions provider focused on healthcare ICT and mobile workflow solutions headquartered in Baar. The kick-off meeting took place on 6 October 2016 at University of Zürich. Ascom's CFO Bianka Wilson delivered a fascinating presentation and impressively demonstrated how Ascom successfully developed into the healthcare segment.

In this year's challenge, the Universities of Zürich (4 teams), Basel (1 team), Lugano (3 teams), St. Gallen (5 teams), Neuchâtel (3) teams, University of Lausanne HEC (12 teams) and EPFL (1 team) are participating, with a record number of 29 teams in total. Over the autumn term students will have to work in groups on an initiation research report on Ascom, as well as on a presentation on the investment case on Ascom which they will have to deliver to a jury-board on 23 February 2017.

Switzerland's best team will represent its university, Ascom and especially CFA Society Switzerland, at the EMEA regionals and hopefully also at the global final in Prague, Czech Republic in April 2017.

More to follow ...

ascom

CFA SOCIETY SWITZERLAND... IN THE MEDIA!

Here we summarize the most notable appearances of the Society and/or Members in the press during the past month:

Umfrage zum Schuljahresbeginn: Finanzen gehören in den schulischen Lehrplan
e-fundresearch.at

PK auf Erfolgskurs
Immobilien Business

La Suisse a trop de caisses de pension
Le Temps

Selon le «pape de la prévoyance», la Suisse doit réduire à 20 le nombre de caisses de pension
Le Temps

Haben Banken aus Finanzkrise nichts gelernt?
e-fundresearch.ch

CFA Society Switzerland

UPCOMING SOCIETY EVENTS

24 October in Zurich | 25 October in Geneva:

Investment Implications of the Upcoming US Presidential Elections

by Edward Karr, past contributor to CNBC and currently partner with Strategic Swiss Advisors. Gain an overview of the current US macroeconomic situation and future market predictions given the two candidates' public platforms.

29 October in Geneva and Zurich | 19 November in Geneva and Zurich:

CFA Level 1 Live Mock Exam

offered in partnership with FitchLearning to help candidates prepare for the CFA exams.

3 to 7 November in Geneva | 10 to 14 November in Zurich:

CFA Level 1 Exam Intensive Review Course

in cooperation with ISFB (Geneva) and FHSG (Zurich) offers candidates intensive review of concepts and methods in preparation for the CFA exams.

7 to 12 November in Geneva:

Swiss Finance Institute Program – Managing International Asset Management.

Intensive program for senior asset management executives. Explores challenging developments confronting the industry today.

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CFA Society Switzerland

UPCOMING SOCIETY EVENTS

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11 November in Geneva: LinkedIn: The Social Network for Professionals

by Sarah Santacroce, Linkedin Specialist & Online Presence Mentor. Learn what it takes to build your professional brand on LinkedIn, and to generate more leads.

15 and 16 November in Zurich: 2nd Uhlenbruch Annual Conference on Professional Investment

Leaders from research, capital markets, and business will present contemporary topics relevant for investment professionals. Charterholders receive 10% discount. Free entry for buy side representatives if they contact christian.dreyer@swiss.cfa.

17 November in Geneva: Geneva Wine Tasting Party

members and guests are welcome to this social event taking place in a private cellar in Geneva's historical old town.

23 November in Geneva | 24 November in Zurich: CFA Award Ceremony

a celebration of new members who successfully passed the 2016 Level III CFA Exam.

25 November in Geneva: Commodities as an asset class: delivering beta & beyond

by Dr David-Michael Lincke, Head of Asset Management at Picard Angst. Against the backdrop of the prolonged cyclical downtown in commodities markets, the presentation will review the state of the market, investment characteristics of commodities, and strategies to exploit their risk premia to improve risk-adjusted returns.